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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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UNCLAS SECTION 01 OF 02 ANKARA 001705

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SUBJECT: TURKEY: BTC OIL ADVANCES - ERZURUM AS ENERGY CROSS-ROADS

REF: ANKARA 1527

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Sensitive But Unclassified. Please Handle Accordingly.

1. (SBU) SUMMARY: With first oil at Pump Station 3, BTC is still on track for first tanker loading at Ceyhan on May 27. The project has achieved good "buy-in" from the local population from jobs and its community programs. Nearby major city Erzurum hopes to benefit more from development as an energy transit cross-roads, but its rigorous conditions leave it very dependent on state support. End Summary.

BTC Pump Station Three Goes Live

2. (SBU) Energy Officer visited BTC Pump Station Number 3 (PT3) near Erzincan, Turkey on March 24. The station was astir with arrival of first oil only a few days before on March 20 (substantially on current schedule for first tanker load at Ceyhan on May 27). BOTAS Station Manager Murat Erkan took Energy Officer through the "red zone" (pumping, piping, and scraping facilities), under higher security procedures now that the facility had gone "live". He showed the two newly arrived "pigs" (pipeline testing units) that had preceded the first oil, noting how little visible wear and tear were evidenced after the journey from PT2. Hot testing of the relief facilities, pipe valves, engines, etc was underway with a target of sending oil onwards on April 4. He said operation of Pump Stations 1 and 3 would be adequate for initial levels of BTC pipeline oil flow.

3. (SBU) The PT3 manager insisted that relations were good between BOTAS (prime contractor) and the BTC consortium (owner, represented by BP) at the site. On the subject of disputed cost over-runs between BTC and BOTAS, a BOTAS contact called Energy Officer during his visit and complained about BP leaking confidential negotiations to USG officials. He expressed hope for reaching an agreement, but noted that BOTAS was preparing for potential international arbitration on covering \$334 million in cost overages related to delays and (what BOTAS argues are) scope changes

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14. (SBU) Energy Officer was impressed with visible security and safety at the PT3 site. The mountain-top station was surrounded by watch-towers, two perimeter fences, and an inner fence securing the red zone. Unlike at PT1, the gendarmerie station was not adjacent to the station, but the gendarmerie had established its camp at a nearby village.

Erzurum: Look Hard at BTC

15. (SBU) Erzurum (Eastern Turkey's nearby regional center) officials and interlocutors were uniformly positive about BTC, although some university students were skeptical of the value of transit to Erzurum and Turkey. Officials and university professors were unanimous in recognizing that BTC brought significant present and future benefits in fees, regional linkages, and experience for the GOT and BOTAS. PT3 has brought significant construction employment, schools, and other social/education benefits to local villagers. Many Erzurum trades-people confused BTC with the municipal natural gas distribution project, contracted to Turkish Palen Company. Chamber of Commerce President Muammer Cindiller told Energy Officer that although the connections to natural gas were behind schedule, there was already improvement in the vexing problem of pollution as gas replaces the imported dirty Russian coal. He admitted that people readily accepted gas for cooking, but were worried about price of gas for heating.

16. (SBU) Deputy Mayor Eyup Tavlasoglu noted that people supported the arrival of BTC, but it was hard for the consortium to meet all their raised expectations for jobs and benefits. Officials were also optimistic about the connection of the South Caucasus (gas) Pipeline to the

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Turkish grid at Erzurum (also the connection for the spur from Iran), noting that Erzurum was developing as a regional energy cross-roads. The Chamber President advocated the idea of a refinery in Erzurum which could use BTC oil and serve eastern Turkey (Energy Officer politely pointed out that the consortium would probably not be interested in that business investment).

Erzurum's Dependency on the State - Tourist Ptential

17. (SBU) Officials lamented Erzurum's natural challenges: a long, rigorous winter and general lack of development in Turkey's east, expressing a dependency on the state to help Erzurum, because the private sector was generally unable to establish investment feasibility. The Chamber President listed Erzurum's main endowments as the 40,000 student Ataturk University, its research hospital (which had treated suspected avian influenza cases in January, of which there was one confirmed case), and the separate state and private hospitals. University officials were hopeful that Erzurum could gain a future Winter Universiades competition, leveraging the proximate, world-class skiing, with the need for state support to increase skating facilities. The University Hospital avian influenza expert advocated outside support to establish a testing lab in Erzurum. All officials touted Erzurum's ski center, located only 8 km from the city, and now catering mainly to Russian tourists.

No Iranian Influence

18. (SBU) All Erzurum interlocutors were unanimously insistent that there was not significant Iranian influence in Erzurum. The Deputy Mayor pointed out that the Iranian

Consulate (only diplomatic representation in the city) was opened during the time of the Shah when there was more bilateral commerce and Iranian tourists. All officials said the consulate was now low profile and barely open. In response to Energy Officer's observation of a minority of older women clad in apparent chador-burka style full body covering garb, officials claimed that these were not at all related to Iran; rather, these were remnants of Erzurum's traditional "ehram" attire, suitable for the cold and wind (but only used by women). All officials emphasized the big cultural and religious differences between Sunni Erzurum and Shia Iran that militate against Iran having significant influence.

Tough Crowd at the University

19. (SBU) Energy Officer addressed a standing room crowd of about 250 students from a variety of departments at Ataturk University on "East-West Energy Corridor; Erzurum Connects to the Global Economy". Students asked tough questions that indicated great skepticism about U.S. policy in Iraq and the Middle East and with respect to Iran. Students in Erzurum appear to have the same concerns on these issues exhibited elsewhere in Turkey.